

**Testimony of Mr. John Germolus
on Behalf of
National Association of Crop Insurance Agents**

Before the Committee on Agriculture
Subcommittee on General Farm Commodities and Risk Management
Public Hearing on Tuesday, August 19, 2003, Ada, Minnesota

Mr. Chairman and members of the subcommittee, thank you for allowing me to testify today on behalf of the National Association of Crop Insurance Agents (NACIA). I am a crop insurance agent for the Ada and Moorhead areas and a farmer. So my recommendations and observations are based not only my customers' experiences, but my own.

Multi-peril crop insurance is working for the farmers of this region but we should always be looking for ways to improve our product and our service to producers. We need to keep striving for very good MPCCI products that offer producers sufficient coverage and obviate the need for providing disaster assistance. In the end, this will save taxpayers money as well as keep farmers farming.

Agriculture Risk Protection Act of 2000

The Agriculture Risk Protection Act of 2000 (ARPA) improved the program in many ways, especially the increases in premium subsidies at the higher levels of buy-up coverage. These increases provided the single greatest incentive for our producers to increase their protection and I commend everyone that helped to achieve this part of ARPA. This has brought many of our farmers from the lower levels of buy up to the 70 and 75 percent levels. We still do not see many purchasing at 80 or 85 percent because premiums are still too prohibitive. Please see attached coverage and premium

comparison in Exhibit A. Shifting more subsidy from lower levels to these higher levels would stimulate further buy up. If Congress wants to consider providing more incentives for farmers to buy-up, Congress should consider raising the administration fee for the catastrophic (CAT) policies. We believe that it will lead to even more producers, especially those who operate smaller farms, buying higher levels of coverage mainly because doing so gives them more protection for virtually the same dollars they would have spent on CAT coverage. Another avenue that our federal government might consider is entering into contractual agreements with each state government. These contracts could be structured to allow state subsidies for the higher levels with some money being returned to the states in low loss years, somewhat like our standard reinsurance agreement with companies.

ARPA also brought us some relief to poor yields in the Actual Production History (APH) database with the 60% T-yield option. We have seen that this option offers some help but does not go far enough. If this could be improved substantially it could be the biggest step towards eliminating disaster payments in the future. Prior to the introduction of the Actual Production History (APH) program, a producer could choose between using the county yield, proving his own yield or the Individual Yield Certification (IYC). We are not advocating a return to the past, but if we could use a larger percentage, such as 100% of the county T-yield when the county is declared a disaster, producers could actually insure within 85% of a normal yield. This would help any area of the country that has suffered multiple years of adverse weather. No one can predict which area of the country will suffer the next disaster or series of disasters. In the early 1980's we were producing wheat yields as high as 90 bushels per acre, but with excessive rainfall and

wheat scab disease in the 1990's and early 2000's, our yields have never returned to more than 40 to 60 bushels per acre. We hope that our series of disaster years are over, but we can be sure that someone somewhere will have our bad luck.

ARPA also brought with it some provisions that, in our view, have negatively impacted it. The first is the way research and development (R & D) is handled. We believe the RMA should be allowed to continue to make minor policy changes or simple policy maintenance changes, independent of the FCIC board.

We understand the importance of including the private sector in the development of new programs or policies, but to remove RMA's ability to change existing policies should be revisited. We do not think that this was the original intention of this provision, but it has created a roadblock to improving policies.

For example, we have worked for 3 years to make a change in the sugar beet policy and it appears that it could take another 3 years before it could be implemented. We have been told that the change is acceptable to RMA and would not cost producers additional dollars, but because of the new R & D provision in ARPA, an outside entity must study and present its findings to RMA before its adoption. Please consider making a change to this provision to permit flexibility in expediting the process.

ARPA has also allowed a premium discount plan (PDP) that permits companies to reduce premiums based on efficiencies in delivering crop policies. We believe that most producers rely heavily on their agent to keep them abreast of all that they need to know about the products and coverage that they have purchased or can purchase. Each year we meet at least three times with our producers individually. We collect APH data and crop planning information, we analyze products that are available and explain the various

ways that they work for or against a producer. We then help them make their decision on which product will work best for them in the current crop year. This process takes time and knowledge, but with PDP, some of this service will be eliminated. This puts our producers at more risk of not having the right policy in place that will give them the protection they need. And, without the proper protection, lenders could end up rejecting the policies for use as collateral, leaving producers without operating capital.

We also see this provision as discriminatory between large and small producers and also between high risk and low risk areas of the county. We believe that not only premium discounts, but also premium surcharges will result from this provision. We should be constantly striving towards more service to our producers. However, PDP will promote less service and will result in less acres covered by the crop insurance program.

Product or Policy Duplication

We currently have some policies that actually offer identical coverage if certain options are used. These policies have different rating methods, which results in a difference in premiums. We believe that some confusion and expense could be eliminated by not allowing policy duplication.

The example I would use is Crop Revenue Coverage (CRC) and Revenue Assurance (RA) with the fall harvest option. The differences between these two policies are very minor except for their premiums. In any given year one might be cheaper at the 65 percent level and just the opposite at the 70 percent level.

Elimination of one or the other will certainly reduce expenses and also make the wide array of choices less confusing for the producer.

Future programs need closer scrutiny to prevent policy duplication.

Company Viability and Expense Reimbursement

In the last year, we have seen huge changes in our industry, from a company going bankrupt to large mergers of others. As more products are being offered on more crops, expenses and business risk becomes greater and greater. We don't believe that fewer companies will lead to better service and more efficiencies. We think that producers will start slipping through the cracks.

As an agent and a farmer, I would like to know that the company I am insured with will be there tomorrow to service the policy that has been purchased.

We think that RMA should have greater access to every company's financial data to keep an eye on their ability to service customers over the long-term. We understand RMA is taking steps in this direction and look forward to learning what additional types of information they will gather.

We must also ask the question as to whether the government is giving a fair expense reimbursement rate. Each year more products on more commodities are required to be offered to our producers and yet the expense reimbursement does not adjust accordingly. In addition, the loss adjustment reimbursement levels are simply inadequate to cover high loss policies, such as CRC and Revenue Assurance. We know that this is becoming a major strain on companies' ability to stay in business. The new Standard Reinsurance provides the government with the opportunity to provide more money for loss adjustment. NACIA encourages you to support the government in doing so by writing Secretary Veneman a letter on this topic. It's very important to help the agents and the remaining companies stay in business.

In closing, NACIA and I appreciate and thank you for the opportunity to testify and look forward to answering your questions.